Guidelines for Country Contributions

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MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

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1. Purpose

These guidelines are intended (i) to promote meaningful country contributions to programs funded under Millennium Challenge Compacts; (ii) to ensure proper documentation, implementation, reporting, and monitoring of such country contributions; and (iii) to facilitate compliance with Section 609(b)(2) of the Millennium Challenge Act of 2003, as amended (the Act), with respect to country contributions by lower middle income countries (LMICs) and with MCC's *Guidance on Second Compacts*.

2. Scope

These guidelines apply to country contributions agreed and documented in a country's compact and program implementation agreement (and related documents) (such contributions are referred to herein as *Country Contributions*). Country Contributions may include contributions based on all or some of the following: the legally required contribution from lower middle income countries under Section 609(b)(2) of the Act (as discussed in Sections 5.1.4 and 5.1.5 of these guidelines), the percentage contribution required under Section 5.1 of these guidelines, and contributions that MCC and the country otherwise agree related to the compact program's implementation and sustainability. For the avoidance of doubt, once a Country Contribution is agreed by MCC and a country, and is documented in a compact and program implementation agreement, then the Country Contribution is considered 'required' hereunder, whether it specifically relates to satisfying Section 609(b)(2) of the Act or not.

These guidelines do not apply to Threshold Programs, assistance provided by MCC pursuant to Section 609(g) of the Act, or other support that countries may provide to a compact program (but that is not documented in the compact and program implementation agreement), whether through funding for compact development activities or staff, for meeting compact-related needs during implementation, for post-compact expenses, or otherwise. This 'supplemental government support' does not count toward the Country Contributions discussed in these guidelines and is not subject to these guidelines.

MCC expects that all compact-eligible countries will continue to fund standard compact development activities, such as establishing a compact development team, conducting constraints analyses and consultative processes, and submitting a concept note and a project proposal. Certain compact-eligible countries may also choose to fund feasibility and other studies prior to compact signing and by doing so may accelerate development and facilitate eventual implementation.

3. Authorities

These guidelines derive from, and refer to, the following authorities:

3.1. Statutes

Section 609(b)(2) of the Millennium Challenge Act of 2003, as amended (the Act).

3.2. Federal Government Regulations, Standards, and Other Guidance

CFR Part 200.306

3.3. Related MCC Policies and Procedures

a. MCC's Guidance on Second Compacts;
b. MCC Cost Principles for Government Affiliates (the *Cost Principles*); and
c. MCC's Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities.

4. Principles for Country Contributions

The following principles form the basis for these guidelines:

- Country Contributions are desirable because they promote ownership, demonstrate commitment, provide for more meaningful and equitable partnerships, and support responsible MCC management of scarce public resources;
- MCC and partner countries should consider the full range of Country Contributions required from compact signing to compact end date, ensure sufficient funds are provided for both program needs and administrative requirements, and allow for changing circumstances;
- LMICs should contribute more (as a percentage of compact funding) than low income countries (LICs);
- Country Contributions are unique for each compact; where a contribution is required for a concurrent compact, it must be distinct from any contribution for an existing compact;
- Country Contributions should not significantly complicate the process of implementation; and
- MCC and the partner country's accountable entity (AE) have a responsibility to monitor and review the Country Contribution during the term of the compact and to take corrective action if actual contributions do not meet the amount and schedule agreed upon for the Country Contribution.

5. Guidelines

5.1. Amount of Country Contributions

MCC expects partner countries to make financial and/or in-kind contributions to promote meaningful support to programs funded under Millennium Challenge Compacts. The percentages set forth below are based on the income category of the country and whether it is a first, subsequent, or concurrent compact.

(As noted in Section 2 above, these guidelines cover Country Contributions, which are contributions that satisfy the requirements of the Act, as well as contributions that extend beyond the Act's requirements and are documented in the compact and program implementation agreement.)

The income category [1] of a country will be determined by reference to the candidate country report issued by MCC pursuant to Section 608(a) of the Act for the fiscal year the county is initially selected as eligible. Changes in the income category of a country after a compact is signed will not change the amount of the Country Contribution required.

5.1.1. First Compact LIC

LICs are not required by the Act to make a Country Contribution to their first compact program. However, MCC and the partner country may agree to include a Country Contribution in the first compact.

5.1.2. Second Compact LIC

Pursuant to *MCC's Guidance on Second Compacts* [2] , LICs that are eligible for a second compact are expected to make a Country Contribution of, in most cases, at least 7.5 percent of the total amount of MCC funding provided under the compact (i.e., the sum of the maximum amount of compact facilitation funding and program funding specified in the compact).

5.1.3. Concurrent Compact LIC

In light of the principles set forth in Section 4 above, LICs that are eligible for a concurrent regional compact are expected to make a Country Contribution, but MCC does not require a specific minimum contribution amount. Instead, MCC and the partner country will negotiate an appropriate Country Contribution to demonstrate the partner country's commitment to the regional program supported by the concurrent compact. Other factors to consider in determining the size of the Country Contribution will be amounts necessary to satisfy program funding gaps and to facilitate implementation.

5.1.4. First Compact LMIC

Pursuant to Section 609(b)(2) of the Act, LMICs are required to provide *"a contribution, as appropriate, from the country relative to its national budget, taking into account the prevailing economic conditions, toward meeting the objectives of the Compact."* MCC considers that a Country Contribution of at least 7.5 percent of the total amount of MCC funding provided under the compact (i.e., the sum of the maximum amount of compact facilitation funding and program funding specified in the compact) will in most cases be an appropriate contribution for a first compact for purposes of the Act.

5.1.5. Second Compact LMIC

Pursuant to MCC's Guidance on Second Compacts, LMICs that are eligible for a second compact are expected to make a Country Contribution of at least 15 percent of the total amount of MCC funding provided under the compact (i.e., the sum of the maximum amount of compact facilitation funding and program funding specified in the compact). MCC considers that such a Country Contribution will in most cases be an appropriate contribution for a second compact for purposes of the Act.

5.1.6. Concurrent Compact LMIC

Pursuant to the requirement at Section 609(b)(2) of the Act, and in light of the principles set forth in Section 4 above, LMICs that are eligible for a concurrent regional compact are expected to make a Country Contribution, but MCC does not require a specific minimum contribution amount. Instead, MCC and the partner country will negotiate an appropriate Country Contribution to demonstrate the partner country's commitment to the regional program supported by the concurrent compact. Other factors to consider in determining the size of the Country Contribution will be amounts necessary to satisfy program funding gaps and to facilitate implementation.

For convenience, the following table summarizes the contribution levels discussed in Section 5.1. as appropriate in most cases.

Compact income category	Minimum Country Contribution requirement (%) in most cases
1st Compact LIC	No minimum
1st Compact LMIC	7.5%
2nd Compact LIC	7.5%
2nd Compact LMIC	15%
Concurrent LIC	Contribution required, but no minimum specified
Concurrent LMIC	Contribution required, but no minimum specified

5.2. Purpose and Nature of Country Contributions

Country Contributions must be toward meeting the objectives of the compact and must directly support the projects and activities identified in the compact. Country investments or expenditures that further the objectives of the compact but are merely complementary or tangentially related to the projects and activities identified in the Compact will not count toward the amount of the Country Contribution specified in Section 5.1 above.

5.2.1. Financial and in-kind Contributions

Country Contributions may be financial, in-kind, or a combination of both, and must be agreed upon with the government prior to compact negotiations. They may include contributions toward program management as well as contributions supporting improved performance and/or sustainability of projects and activities. Contributions such as providing office space to AEs may be useful during compact implementation; contributions that promote sustainability and long-term impact may require greater efforts to identify, structure, and value. MCC will validate the nature and source of Country Contributions, both financial and in-kind, prior to compact negotiations.

5.2.2. Criteria for In-Kind Contributions

To qualify as Country Contributions, in-kind contributions must relate to a specific project or activity or to compact program administration. Such contributions may include, without limitation, goods, services, works, studies, equipment, materials, and leased property provided by the country. The value of in-kind contributions should (i) be estimated during compact development based on the expected value for the goods, works, or services provided, and (ii) be assessed for reasonableness. The estimated value for any in-kind contribution must comply with Section 5.3 below, and the recorded value will be determined in accordance with Section 5.4 below.

In-kind services (paid or unpaid) that support attainment of the compact, project, or activity objectives, including professional, technical services, consultants, and other skilled and unskilled labor, may be counted as a Country Contribution. Rates for in-kind services should be consistent with those paid for similar work by the entity making the contribution. In instances in which the required skills are not found in the entity making the contribution, rates should be consistent with those paid for similar work in the labor market in which the entity competes for the kind of services involved. In either case, paid fringe benefits that are reasonable, allowable, and allocable may be included in the valuation.

5.2.3. Criteria for Financial Contributions

Financial contributions are acceptable toward the Country Contribution when such financial contributions meet the following criteria:

- Are verifiable from the country's records.
- Are provided by the country through its own government resources.
- Are provided by other financial instruments, including cash, grants, loans, securities, and guarantees.
- Are not loans from U.S. Government entities other than as discussed below in this Section 5.2.3 with respect to the U.S. International Development Finance Corporation.
- Are not included as contributions for any other project or program funded by the U.S. Government or another donor that requires a contribution as a condition of funding. As requested by MCC, the principal or additional representative of the government shall certify that the Country Contribution meets this criterion.
- Are allowable under the Cost Principles.
- Are provided for in the compact or the program implementation agreement and are included in

the contribution schedule, as such schedule may be amended through an agreement between MCC and the country.
- Conform to other provisions of the compact or program implementation agreement, as applicable.

With respect to loans from other U.S. Government entities, MCC may consider financial contributions that relate to the country's financial arrangements with U.S International Development Finance Corporation ("DFC") as qualifying as the Country Contribution depending on the nature of such DFC financial arrangements and only to the extent such arrangements relate to compact program's stated objectives.

Indirect costs may be included toward the agreed amount of the Country Contribution only with the prior approval of MCC. The inclusion of indirect costs requires a reasonable analysis of the indirect cost pool.

The partner country may place all or part of its Country Contribution into an account at a depository institution (e.g., bank, the national treasury, etc.). If the account earns investment income, it is assumed that the investment income belongs to the partner country and is not considered as country contribution.

MCC recommends that the partner country and the AE memorialize the parameters of any financial contributions prior to the initial contribution.

5.3. Valuation of Contributions (Estimates)

During compact development, MCC and the partner country will collaborate to estimate the value of the country's proposed contributions consistent with these guidelines. The estimated valuation provides the basis for the Country Contribution commitment in the compact and will be set forth in a schedule included in the program implementation agreement.

For in-kind contributions in the form of a "service," the recorded value is determined at the time the service is provided.

For in-kind contributions in the form of an "asset," the recorded value is determined at the time when an asset is liquidated/expended.

Financial contributions are valued and recorded (i.e., converted to dollars) when the contribution is converted into an expenditure/disbursement.

5.4. Recorded Value of Contributions (Actuals)

During compact implementation, contributions will be valued in accordance with the following procedures. When sufficient justification is provided, MCC may allow using the certified value of the remaining life of an asset (as recorded in the accounting books and records at the time of contribution) as the basis for valuation. This could be the case when the fair market value of the contribution is not readily available (i.e., no comparable is identified or identifiable). In assessing the value of a contribution, reasonable and cost-effective methodologies should be used. For assets of de minimis value, alternative valuation methodologies such as historical or amortized cost may be acceptable.

The AE will value and record a contribution when it is put in service of the program (the "valuation date"). In the case of financial contributions, the valuation date will typically be the date when the contribution is expended. For example, if the country contribution includes a grant or a loan from another donor, the recorded value will be the amount of the grant or loan that is actually disbursed and expended in service of the program during the compact term, not necessarily the full face amount of the grant or loan at the time it is signed. In the case of in-kind contributions, the valuation date will typically be the date the goods, works or property are transferred, or the service is provided to the AE or an implementing entity and put in service of the program.

In the case of assets whose value may fluctuate between the time the assets are transferred to the AE or other entity and the time the assets are put in service of the program (e.g., stocks or other securities), the recorded value will be the value at the time such assets are liquidated and expended in service of the program. Contributions denominated in local or foreign currency will be recorded and converted to U.S. dollars at the exchange rate published by the central bank of the country or such other source agreed with MCC on the valuation date or using an average rate over the period of contribution. The recorded value of a contribution should not change unless it no longer supports achievement of the compact objectives, in which case MCC may determine that the recorded value be changed.

The recorded value of contributed property shall be determined in accordance with the usual accounting policies of the AE or the implementing entity, with the following qualifications:

- The recorded value of donated land and buildings should not exceed their fair market value at the time contributed to the program. When cost effective, the recorded value should be established by an independent appraiser (*e.g.*, certified real property appraiser) and certified by a responsible official of the AE;
- The recorded value of contributed equipment should not exceed the fair market value of equipment of the same age and condition at the time of donation;
- The recorded value of contributed space should not exceed the fair rental value of comparable space as established by an independent appraisal of comparable space and facilities in a privately-owned building in the same locality; and
- The recorded value of loaned equipment should not exceed its fair rental value.

Values for contributions of services and property will be established in accordance with MCC Cost Principles. If MCC authorizes a country to donate buildings and/or land, the value of such donated property for Country Contribution purposes will be the lesser of:

- The certified value of the remaining life of the property recorded in the accounting records of the contributing entity on the valuation date; and
- The current fair market value.

When there is sufficient justification, MCC may approve the use of the current fair market value of the donated property, even if it exceeds the certified value at the time of donation to the project.

5.5. "Additionality"

Country Contributions must be "*in addition to government spending allocated* [toward the Compact objectives] *in the country's budget for the year immediately preceding the establishment of the Compact and should continue for the duration of the Compact*." While this applies statutorily only to LMICs, through these guidelines MCC applies this "additionality" concept to LICs as well.

The spending allocated by a country in its budget in the year prior to compact signing should be used as a baseline against which contributions during the compact term are measured. Recognizing that certain contributions may come in lump amounts and others may be more easily spread out during the compact term, MCC will use a reasonable approach to determine whether a contribution is additional to the baseline, including averaging the contribution over the compact term.

Contributions in the form of cash and expenditures by the country for goods, works, or services that are made directly toward projects and activities under the compact and managed by the AE are presumed to be additional absent clear evidence that the country would have carried out such projects or activities absent the compact.

5.6. Timing

The compact and PIA will describe the expected timing of payments of the Country Contribution during the period from compact signing to compact end date.

The entire amount of the Country Contribution must be made and recorded prior to the compact end date. To the extent they support sound implementation, Country Contributions should be made in parallel with and in proportion to expenditures of MCC funding and not made disproportionately toward the end of the compact term. MCC will review the projected contribution schedule prior to and during compact negotiations and may request that the timing of contributions be adjusted if it determines that the proposed schedule creates excessive completion risk.

5.7. Documentation

MCC and the partner country will discuss and agree on the nature, sources, projected valuation, and allocation of the Country Contribution to the program prior to and during compact negotiations and then include such details in the compact or the program implementation agreement along with a projected Country Contribution schedule (included as an annex or part of the multi-year financial plan). In order to demonstrate "additionality" (which concept is discussed in Section 5.5 above), such schedule will include the baseline of government spending in the year prior to the signing of the compact and the projected contribution for each year thereafter, through the end of the compact term.

5.8. Monitoring and Reporting

MCC and AE will monitor and track Country Contributions over the life of the compact, that is, from signing through the closure period of a compact.

5.8.1. Periodic reporting from the AE

Each AE is required to prepare and submit various reports on its government's Country Contribution, as follows:

a. *Official annual report*
No later than 30 days after an annual or semi-annual audit period, each AE is required to submit for No-Objection an official narrative and financial report consistent with its audit schedule or detailed in the compact and program implementation agreement. If a report has unsupported or questioned costs, MCC can withhold its acceptance of the entire report until each questioned item has been satisfactorily addressed. In its review of the report, MCC may request supporting documentation to validate any amount reported. If an AE fails to provide the requested documentation, the questioned item may be disallowed.
b. *Quarterly reporting*
The "Explanatory Notes" that AEs submit as part of the quarterly disbursement request process should include an update on the status of the Country Contribution. MCC may request that an AE also submit a financial report generated by AE's financial system on a quarterly or ad hoc basis related to Country Contributions.
c. *Closure*
The program closure plan should include a section with information on the status of its Country Contribution, together with a description of any actions that the government will take to meet the pledged Country Contribution amount prior to the compact end date. During the post-compact closure period, the AE also must provide information on the Country Contribution as part of its final financial report.

5.8.2. On-site monitoring by MCC or its representatives

MCC reserves the right to conduct on-site monitoring and verification of country contributions, including without limitation, by physical inspection of source documents (e.g., timesheets, invoices, valuation reports, and bank statements), site visits and interviews. As necessary, MCC and the AE will jointly develop a written protocol for site visits. Key elements of the protocol would include, but not be limited to, identifying primary monitors, establishing the amount of advance notice required, identifying a primary point of contact at the AE, host country government, or fiscal agent, reporting on the visit, and corrective actions.

5.8.3. AE's external audit

The audit reports of the AE's independent public auditor are an effective tool to monitor Country Contributions. The audit reports include a "Schedule of Cost Sharing" (which should follow the projected Country Contribution schedule agreed to by the country and MCC) to document Country Contributions. The independent public auditor should perform a review of the Country Contribution as part of its normal audits. As part of its review, the independent public auditor should ensure that the required matching percentages or amounts are being met per the agreed schedule of contributions. If the government is not providing the Country Contribution as scheduled, the audit report should alert MCC and the country of the deficiency in order to take action to ensure the contribution requirement is fulfilled by the end of the compact term.

5.9. Changes in Contributions

During implementation, MCC and the government may agree in writing to certain changes to the Country Contribution, *provided* that the modified contribution is consistent with these guidelines and with the compact and program implementation agreement. Any changes should be documented in an implementation letter or other written instrument and reflected in an updated contribution schedule.

In determining whether to agree to changes to the Country Contribution amount set forth in the compact, MCC will consider: (i) the need to satisfy the legally required minimum (including assessing "prevailing economic conditions" in connection with Section 609(b)(2) of the Act3), (ii) the partner country's contributions to date, and (iii) the phase of compact implementation.

In assessing "prevailing economic conditions," MCC considers the conditions as of the time the contribution was made; worsening conditions at a later time of the compact term does not alter the calculation for conditions at the time of the earlier contribution.

5.10. Remedies for Failure to Make Contributions

In the event that a country is not meeting the agreed-upon schedule for its Country Contribution, MCC may, in its discretion, withhold disbursement of MCC funding until the government is in compliance with the schedule or the government gives assurances satisfactory to MCC regarding the timing of sufficient contributions. If MCC considers the country's failure to meet its Country Contribution requirements to be a material breach of the compact, it may act to reduce the amount of MCC funding granted under the compact or suspend or terminate assistance under the compact in whole or in part.

5.11. Waiver

MCC may decide to waive certain requirements of these guidelines on a case by case basis, which decision will be made by the Vice President for Compact Operations after consultation with the Country Team and clearance from the Office of the General Counsel; *provided* that, for the avoidance of doubt, this provision cannot be used regarding any contribution required by Section 609(b)(2) of the Act, which is a legal requirement that MCC cannot waive. MCC will consider the following factors before granting a waiver:

- Country Contribution financial and in-kind disbursements made to date;
- Country's contributions in support of meeting Compact requirements;
- Compact implementation year; and
- Other factors—including natural disasters, global emergencies, political unrest, etc.

6. Effective Date, Responsibilities, Amendments

These guidelines are effective as of the date approved and supersede any prior policy, guidance, and delegation of authority with respect to the subject matter hereof; *provided that,* for any country that has signed a compact prior to the effective date of these guidelines, such country's Country Contribution is governed by the prior version of these guidelines, which were in effect as of the date of signing of the country's compact unless MCC and the relevant government agree in writing to apply these updated guidelines or certain provisions thereof. In the event of a reorganization of MCC, the responsibilities ascribed to any officer hereunder will be carried out by his or her successor. This guidance may be modified or amended at any time in writing with the approval of both the Vice President of Compact Operations and the Vice President and General Counsel.

Endnotes

1. The MCA Modernization Act defines LICs for MCC as the 75 countries with the lowest per capita income as identified by the World Bank. LMICs are countries that have a per capita income that is not greater than the World Bank's lower middle income / upper middle income country threshold, but are not among the 75 lowest per capita income countries as identified by the World Bank. For more information, see the Candidate Country Report.
2. Though MCC currently uses the term "subsequent compact" rather than "second compact", the existing *Guidance on Second Compacts* refers to "second compacts", so these Guidelines use that term when referring to that specific guidance document.